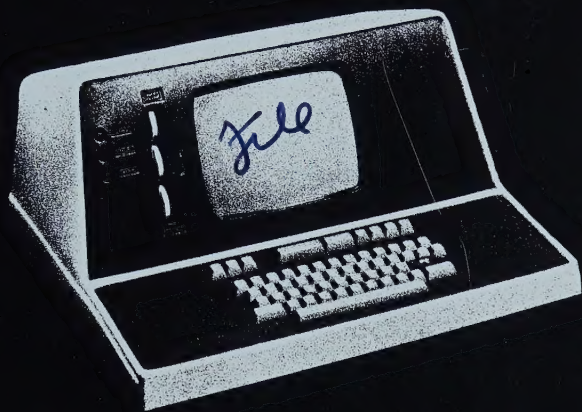
AR45

CONSOLIDATED COMPUTER INC.



Annual Report 1972

DIRECTORS

Mr. D. C. Early	Chairman, Ontario Development Corporation
Mr. W. G. Hutchison	President, Consolidated Computer Inc.
Mr. D. G. Kilgour	Partner, Kilgour, World and Flood
Mr. W. C. Benger	Vice President, Technology Northern Electric Company
Mr. J. M. Tory	Partner, Tory, Tory, DesLauriers & Binnington
Mr. E. S. Miles	Director, Burns Bros. & Denton
Mr. M. Kutt	President, Micro Computer Machines Inc.

OFFICERS

William G. Hutchison	President
Geoffrey H. Bennett	Vice-President Marketing & Finance, & Treasurer
David G. Kilgour	Secretary
Willem H. C. Kooij	Vice-President Advanced Planning
Brian J. Dunk	Vice President Product Development
Albert B. Couillard	Vice President Manufacturing
John E. Kleins	Vice President Corporate Development

Message to Shareholders

At the start of 1972 Consolidated Computer was in receivership. Following the reorganization of the Company in March, 1972, the Company's fortunes changed. As the year progressed, a remarkable recovery was made and the year ended with revenues of $11,955,125. Profit was $2,002,184. Over two million of debt was reduced by payment of $500,000. in cash and the conversion of $1.7 million into special shares.

Of particular long-term significance were the contracts negotiated during the year. In January we signed a contract with International Computers Limited for $7 million of KEY-EDIT System equipment to be shipped during 1972 and 1973. A contract for an additional $17.5 million worth of equipment was signed with ICL in September for shipment in the period through to June, 1975. In November ICL ordered an additional $1.5 million of equipment. Also in November we signed our first agreement with Fujitsu Limited of Japan for $2.6 million, as well as a contract for $500,000. with Ecodata of Brazil.

Because of the financial reorganization of the Company and a change in marketing strategy, valid financial comparisons with previous years are difficult to make. The change in marketing strategy is the major reason for the improvement in results. The Company has increased the wholesale marketing of its products through its agreements with ICL, Fujitsu and Ecodata. These companies then retail the products to their customers and provide the necessary lease financing. In North America the Company still does its own retail marketing. This is on a lower scale than before to make it compatible with the Company's financial resources. Retail marketing, because of its lease financing implications, tends to defer profits into the future.

Our relationship with ICL has grown very strong as evidenced by the $26 million of orders they placed with us in 1972. In addition to the immediate benefits to us, it indicates ICL's long-term commitment to the data entry market. The market for computer data entry products is one of the fastest growing segments of the computer industry. To obtain a major share of this new market, ICL has created a new division reporting at a senior level which is solely responsible for marketing computer data entry products.

We are very pleased with our initial agreement with Fujitsu Limited of Japan. Fujitsu has the largest computer business in Japan, which represents the second largest computer market in the world. Fujitsu is placing a major emphasis on the marketing of computer terminal products through the recent formation of the Facom Data Terminal Company, in which they hold a major interest. The KEY-EDIT System will be the first product marketed by this new company.

The South American market is much smaller than Europe or Japan. However, it is growing rapidly and its future size makes it important to-day. We are fortunate to have become associated with Ecodata, an affiliate of Cable and Wireless — the large British telecommunications company. For many years they have been active in the communications industry in South America and the introduction of KEY-EDIT Systems is part of their diversification programme.

Consolidated Computer was one of the first companies to introduce the concept of computer controlled data entry systems. The concept is now well accepted and the market research experts are forecasting annual shipments of approximately $300 million of such systems in 1978. Consolidated has now established itself as

one of the market leaders. Since the announcement of the KEY-EDIT System in 1969, the Company has received orders worth a total value of $52 million. By the end of 1972, $25 million of the total orders had been delivered, with the result that there are now 300 KEY-EDIT Systems controlling 4,500 data entry terminals in seventeen countries throughout the world. This makes Consolidated the third largest supplier in the world in terms of systems delivered to date. We also have the largest backlog of unfilled orders in our business.

Despite the financial difficulties of 1971, your Company maintained a high level of new product development with the assistance of Canadian Government grants through the Programme for the Advancement of Industrial Technology. This will 1 result in the annoucement of ~~some new data~~ entry products during the first half of 1973. These new products will expand our market and will complement the features of the now well established KEY-EDIT 100 System. ICL, Fujitsu and Ecodata evaluated our new products on the basis of advance information and ordered them after reviewing the available and future products from other suppliers around the world.

Although some product development costs might logically be amortized over the life of our new sales contracts, we have decided to expense these costs as they are incurred. This expense, along with manufacturing start-up costs for the new products, will affect 1973 profits.

On the other hand there may be a positive effect on profits as a result of some expected outright sales of equipment now on lease to our North American KEY-EDIT System customers. Initially our customers reduced their future risk by leasing their equipment rather than purchasing it. Now that the product concept is accepted as a long term solution to the data entry problem, some customers are finding it more economical to purchase their systems.

The success of our operations in 1972 was due in no small part to the dedicated efforts of our employees. They remained with the Company through the difficulties of 1971 and we appreciate their collective efforts in making a success of our operations in 1972. We hope to maintain an exciting and rewarding environment in the Company as we build it, so that our personnel will want to continue their high level of endeavour.

I am pleased to announce the appointment of Mr. W. C. Benger, Vice-President of Northern Electric Company, to the Board. Mr. Benger brings with him considerable business and electronic technology knowledge which will be of great benefit to your Company.

In summary, our results in 1972 were very satisfying. Our profits in 1973 will be affected by one-time costs associated with the introduction of new products. Alternatively, there may be a positive effect due to the conversion of some of our leases to outright purchase agreements. In the longer term, I am able to look forward to the future growth of earnings and sales with considerable confidence.

April 1973

William G. Hutchison,
President.

March 2, 1973

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Consolidated Computer Inc. as at December 31, 1972 and the consolidated statements of operations, deficit and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles. Because of the factors set out in notes 1 and 2 and the changes in accounting principles described in notes 6 and 12 the results of operations and source and use of funds are not comparable with those of the prior year. The changes in accounting principles are as established and set out in the financial statements of the prior year.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

CONSOLIDATED COMPUTER INC.
(Formerly Consolidated Computer Limited)

Consolidated Balance Sheet as at December 31, 1972

Assets

	1972	Pro Forma 1971 (notes 1 and 2)
	$	$
CURRENT ASSETS		
Cash	1,049,074	2,059,831
Accounts receivable —		
Trade	841,551	495,977
Other	544,413	161,999
Estimated net proceeds on sale of subsidiary companies (note 3)	—	1,013,590
Inventories (note 4)	2,224,885	1,455,328
Prepaid expenses	78,898	7,045
	4,738,821	5,193,770
ASSETS HELD FOR DISPOSAL (note 5)	—	373,466
FIXED ASSETS (note 6)	2,623,667	2,241,873
	7,362,488	7,809,109

Liabilities

	1972	Pro Forma 1971
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	689,443	1,918,694
Provision for costs of receivership and reorganization (note 7)	142,621	875,000
Current portion of long-term debt (note 8)	1,065,000	500,000
	1,897,064	3,293,694
LONG-TERM DEBT (note 8)	8,384,134	11,294,311

Deficit Less Capital Stock

	1972	Pro Forma 1971
DEFICIT (note 9)	(4,655,546)	(6,780,902)
CAPITAL STOCK (note 10)	1,736,836	2,006
	(2,918,710)	(6,778,896)
	7,362,488	7,809,109

SIGNED ON BEHALF OF THE BOARD

W. G. Hutchison Director

D. J. Kilgour Director

CONSOLIDATED COMPUTER INC.
(Formerly Consolidated Computer Limited)

Consolidated Statement of Deficit for the year ended December 31, 1972

	1972	1971 (notes 1 and 2)
	$	$
DEFICIT — Beginning of year	6,780,902	6,397,743
Less: Profit for the year	2,002,184	—
Adjustment of settlement with unsecured creditors (note 8)	123,172	—
	2,125,356	—
	4,655,546	6,397,743
Add: Loss for the year	—	10,374,757
Provision for loss on sale of subsidiary companies (note 3)	—	360,474
Write-down of KEY-EDIT components to estimated fair market value (note 4)	—	501,616
Loss on guarantee of loan to Leasing Corporation	—	1,300,000
Write-down of KEY-EDIT equipment to estimated fair market value (note 6)	—	1,777,801
Write-down of other fixed assets to estimated fair market value	—	171,467
Research and development costs (note 12)	—	1,466,652
Expenses of issuing securities	—	333,239
	—	16,286,006
DEFICIT — End of year before Pro Forma adjustments	4,655,546	22,683,749
Pro Forma Adjustments		
Add: Investment in Leasing Corporation	—	1,696,750
Deferred debenture discount	—	229,167
Provision for costs of receivership and reorganization	—	875,000
	4,655,546	25,484,666
Less: Deferred revenue	—	3,988,770
Settlement with creditors	—	1,345,327
6% Series A convertible debentures	—	4,383,999
Accrued interest on 6% Series A convertible debentures	—	84,579
Capital stock	—	8,901,089
	—	18,703,764
DEFICIT — End of year after Pro Forma adjustments	4,655,546	6,780,902

CONSOLIDATED COMPUTER INC.
(Formerly Consolidated Computer Limited)

Consolidated Statement of Operations for the year ended December 31, 1972

	1972	1971 (notes 1 and 2)
	$	$
NET SALES, RENTALS AND SERVICES	11,955,125	4,891,829
COST OF PRODUCTS AND SERVICES	6,581,147	3,881,745
	5,373,978	1,010,084
EXPENSES		
Marketing, administration and other	2,699,354	8,214,144
Research and development — net of government grants (note 12)	640,786	609,164
Interest on long-term debt	111,479	216,254
	3,451,619	9,039,562
Other interest expense including equivalent interest	—	334,994
	3,451,619	9,374,556
Profit (loss) before income taxes	1,922,359	(8,364,472)
Provision for income taxes	932,000	—
PROFIT (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	990,359	(8,364,472)
EXTRAORDINARY ITEMS		
Profit, net of income taxes of $39,000 on sale of time-sharing equipment and inventory (note 5)	40,825	—
Gain on application of tax loss carry forward	971,000	—
Write-down of time-sharing equipment and inventory (note 5)	—	(2,010,285)
PROFIT (LOSS) FOR THE YEAR AFTER EXTRAORDINARY ITEMS	2,002,184	(10,374,757)
Average number of common and special shares outstanding	3,539,812	—
Earnings per share (note 11)		
Basic earnings per share		
— before extraordinary items	28¢	—
— after extraordinary items	57¢	—
Fully diluted earnings per share		
— before extraordinary items	20¢	—
— after extraordinary items	38¢	—

CONSOLIDATED COMPUTER INC.
(Formerly Consolidated Computer Limited)

Consolidated Statement of Source and Use of Working Capital for the year ended December 31, 1972

	1972	1971
	$	(notes 1 and 2) $
SOURCE OF WORKING CAPITAL		
Profit (loss) for the year	2,002,184	(10,374,757)
Add: Charges not affecting working capital —		
Depreciation	740,321	782,296
Amortization of deferred expenses	—	627,497
Write-down of time-sharing equipment	—	780,823
	2,742,505	(8,184,141)
Sale of time-sharing equipment	357,672	—
Reduction in long-term accounts receivable	—	121,819
Decrease in fixed assets (including equipment on lease sold to Leasing Corporation)	—	1,800,259
Deferred revenue on sale of leased equipment	—	3,988,770
Sale of shares (note 10)	12,825	2,152,088
	3,113,002	(121,205)
USE OF WORKING CAPITAL		
Increase (net) in fixed assets	1,106,321	—
Current portion of long-term debt (note 8)	1,065,000	—
Reduction in current assets (KEY-EDIT components and subsidiary companies) charged to deficit	—	862,090
Time-sharing inventory transferred to assets held for disposal	—	216,147
Loss on guarantee of loan to Leasing Corporation	—	1,300,000
Investment in Leasing Corporation	—	1,686,650
Deferred research and development expenditures	—	1,228,589
Expenses of issuing securities charged to deficit	—	333,239
	2,171,321	5,626,715
INCREASE (DECREASE) IN WORKING CAPITAL	941,681	(5,747,920)
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	1,900,076	(3,201,226)
WORKING CAPITAL (DEFICIENCY) — END OF YEAR BEFORE PRO FORMA ADJUSTMENTS	2,841,757	(8,949,146)
PRO FORMA SOURCE OF WORKING CAPITAL —		
Junior secured debenture Series B	—	2,000,000
Conversion of secured liabilities into long-term debt and capital stock	—	5,034,683
Conversion of unsecured liabilities into long-term debt and capital stock, and compromise of debt	—	5,189,539
	—	12,224,222
PRO FORMA USE OF WORKING CAPITAL		
Provision for costs of receivership and reorganization	—	875,000
Current portion of long-term debt	—	500,000
	—	1,375,000
WORKING CAPITAL PROVIDED BY PRO FORMA ADJUSTMENTS	—	10,849,222
WORKING CAPITAL — END OF YEAR AFTER PRO FORMA ADJUSTMENTS	2,841,757	1,900,076

CONSOLIDATED COMPUTER INC.
(Formerly Consolidated Computer Limited)

Notes to Consolidated Financial Statements for the year ended December 31, 1972

1. RECEIVERSHIP AND REORGANIZATION

On November 3, 1971, the parent company filed a proposal to its creditors under the Bankruptcy Act and subsequently prepared for its secured creditors and debentureholders and shareholders a plan of compromise or arrangement under the Companies' Creditors Arrangement Act and an arrangement under the Business Corporations Act (collectively the "plan of reorganization"). The plan of reorganization was approved by the ordinary creditors, secured creditors, debentureholders and shareholders; approval by the Supreme Court of Ontario was obtained on March 16, 1972.

Subsidiary companies were not affected by the reorganization.

The effects of the plan of reorganization are reflected in the pro forma consolidated balance sheet as at December 31, 1971.

By Articles of Amendment dated March 28, 1972, the name of the company was changed to Consolidated Computer Inc.

2. BUSINESS OPERATIONS

As a result of the reorganization of the company, certain operating changes were effected. The major changes were:

(a) The sale of all the company's time-sharing bureau operations and the discontinuance of its marketing and leasing of time-sharing systems.

(b) The sale of the assets of its United Kingdom subsidiary and the shares of its West German subsidiary.

(c) A change in its strategy of marketing KEY-EDIT systems in North America.

(d) The discontinuance of its lease financing arrangement with Consolidated Computer Leasing Corporation and the acquisition of KEY-EDIT systems in North America held by Consolidated Computer Leasing Corporation.

With the exception of (d) above (which was reflected in the pro forma consolidated balance sheet) the effects of these changes were reflected in the financial statements for the year ended December 31, 1971.

Because of the changes described above and in note 1, certain assets were written down to estimated fair market value.

Because of the foregoing and changes in accounting policies described in notes 6 and 12, the results of the company's operations and the source and use of its working capital for the current year are not comparable with those of the prior year. The changes in accounting principles are as established and set out in the financial statements of the prior year.

3. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 1972 and the pro forma consolidated balance sheet as at December 31, 1971 include the parent company and its wholly-owned United States subsidiary and its non-operating United Kingdom subsidiary.

The consolidated statements of operations, deficit and source and use of working capital for the year ended December 31, 1971 include the parent company and its wholly-owned subsidiaries in the United States, the United Kingdom and West Germany.

During 1972, the company sold the assets of its United Kingdom subsidiary and the shares of its West German subsidiary. Both of these transactions resulted in losses which were provided for in the 1971 accounts.

4. INVENTORIES

Inventories are classified as follows:

	1972 $	1971 Pro forma $
Components	1,779,137	1,080,021
Work in process	191,907	173,950
Field service stock	253,841	201,357
	2,224,885	1,455,328

Inventories are valued at the lower of cost, net realizable value or fair market value as estimated at December 31, 1971.

5. ASSETS HELD FOR DISPOSAL

These consisted of assets of the company related to the time-sharing operation.

6. FIXED ASSETS

	1972			1971
	Note $	Accumulated depreciation $	Net $	Pro forma $
Plant equipment	381,988	36,986	345,002	376,588
KEY-EDIT equipment	403,791	63,775	340,016	243,798
KEY-EDIT equipment on lease	2,342,379	613,327	1,729,052	1,400,000
Furniture and fixtures	174,168	16,270	157,898	164,044
Leasehold improvements	57,443	5,744	51,699	57,443
	3,359,769	736,102	2,623,667	2,241,873

NOTE:

Classification	Valuation	Depreciation Method	Depreciation Term
Plant equipment	Cost	Straight-line	10 years
KEY-EDIT equipment reflected in the pro forma accounts as at December 31, 1971	At the then estimated fair market value	Straight-line	3 years
KEY-EDIT equipment assembled after December 31, 1971	Cost	Straight-line	5 years
Furniture and fixtures	Cost	Straight-line	10 years

7. PROVISION FOR COSTS OF RECEIVERSHIP AND REORGANIZATION

The balance in this provision has been retained pending settlement of certain matters relating to the period prior to the reorganization.

8. LONG-TERM DEBT

Principal amount $	Interest (see (i) below)	Description	Security	Maturity $	Conversion feature
		Secured debentures —			
600,000	None	Series One	First floating charge debenture (see (ii) below)	1973 - 450,000) 1974 - 350,000) 1975 - 350,000) 1976 - 250,000)	None
800,000		Series Two			
1,400,000					
		Junior secured convertible debentures			
500,000	None	Series A	Floating charge subject to secured debentures	20% per annum of principal amount outstanding on December 31, 1975 commencing December 31, 1976	$5 per common share until December 31, 1975.
2,000,000	Prime + ½%	Series B	Assignment of book debts and floating charge subject to secured debentures	$300,000 per year commencing December 31, 1973 and the balance December 31, 1976 Principal repayments will be reduced by interest paid from March 28, 1972. The estimated principal repayment at December 31, 1973 is $65,000.	$5 per common share until December 31, 1975.
700,000	None	Series C	Floating charge subject to secured debentures	1973 - 250,000) 1974 - 150,000) 1975 - 150,000) 1976 - 150,000)	None
3,200,000					
		Convertible notes	None		
1,200,000	None	Series One		1973 - 300,000) 1974 - 200,000) 1975 - 200,000) 1976 - 200,000) 1977 - 200,000) 1978 - 100,000)	$5 per non-voting convertible special share.
3,649,134	9% per annum from January 1, 1976.	Series Two (see (iii) below)		15% per annum of principal amount outstanding on December 31, 1975 payable on December 31 of each year from 1975-1980 and the balance on December 31, 1981	$5 per non-voting convertible special share until December 31, 1975.
4,849,134					
9,449,134					
1,065,000	Current portion				
8,384,134					

(i) In the event of default of repayment of principal of any of the above debt interest begins to accrue at 9% per annum.

(ii) Under the terms of the Secured Debenture Indenture the company is in default if it does not meet at least two of the three following conditions after June 1, 1972:

(a) The sum of acceptable receivables, firm orders to be invoiced within thirty days and cash balances of the company will be not less than $500,000;

(b) The sum of acceptable receivables, firm orders to be invoiced within sixty days and cash balances of the company will be not less than $800,000; and

(c) The sum of acceptable receivables, firm orders to be invoiced within ninety days and cash balances of the company will be not less than $1,100,000.

In addition, the company may not declare or pay any dividends or make any other distributions to its shareholders or acquire or otherwise redeem any shares of its capital stock or make any pre-payments (other than mandatory pre-payments) on any junior debt.

(iii) At December 31, 1971 it was estimated that $5,494,311 of Series Two convertible notes would be issued as part of the consideration for the settlement of unsecured creditors' claims. This estimate has been adjusted by $123,172 during the year. During the year $1,722,005 of these notes were converted into 344,401 non-voting convertible special shares.

9. INCOME TAXES

At December 31, 1972, the parent company and its U.S. subsidiary had approximately $13,600,000 of losses carried forward (including $3,700,000 of excess undepreciated capital cost) which can be applied to future profits and, thereby, reduce future income taxes. This amount could be increased by approximately $3,000,000 and/or decreased by approximately $4,000,000 depending on rulings given by the Canadian and American income tax authorities.

10. CAPITAL STOCK

In compliance with the approved reorganization (see note 1) the company applied for and was granted Articles of Amendment dated March 28, 1972 altering the capital structure of the company as follows:

(a) Consolidating, converting and reclassifying all the 4,000,000 issued and unissued common shares without par value of the company into 400,000 common shares without par value and 666,667 non-voting convertible special shares without par value on the basis that each thirty common shares (old) be converted into three common shares (new) and five non-voting convertible special shares.

(b) Increasing the authorized capital of the company by creating 2,850,000 additional common shares without par value and 1,583,333 additional non-voting convertible special shares without par value in order to bring the aggregate authorized capital stock of the company to 3,250,000 common shares without par value and 2,250,000 non-voting convertible special shares without par value.

The non-voting convertible special shares are preferred as to the first 10¢ per share dividend declared in any one year; thereafter the common shares are entitled to the next 10¢ of dividend in any one year; and thereafter in any one year the two classes of shares participate equally in dividends declared.

From the earlier of (i) December 31, 1975 and (ii) a date that the company shall designate in writing to the registrar for the non-voting special shares, the holders of non-voting special shares shall be entitled to convert any or all of the non-voting special shares held by them into common shares (new) of the company on a share-for-share basis.

(c) Reducing the issued capital as at December 31, 1971 to the nominal amount of $2,006.

By Articles of Amendment dated June 26, 1972 the company increased the number of authorized common shares to 3,550,000.

During the year ended December 31, 1972 the following transactions and adjustments were made on account of capital stock:

	Common		Special		Total
	Shares	$	Shares	$	$
Pro forma	2,582,350	755	874,500	1,251	2,006
Less:					
Adjustment to previous years estimated issued shares	16,808	—	1,209	—	—
	2,565,542	755	873,291	1,251	2,006
Conversion of convertible notes Series Two	—	—	344,401	1,722,005	1,722,005
Exercise of stock options	9,500	12,825	—	—	12,825
End of year	2,575,042	13,580	1,217,692	1,723,256	1,736,836

The following shares have been reserved as at December 31, 1972 for the conversion of debentures and the exercise of stock options:

	Common	Special
Junior secured convertible debentures —		
Series A	100,000	—
Series B	400,000	—
Convertible notes —		
Series One	—	240,000
Series Two	—	729,827
Reserved for options to employees exercisable at various times to January 14, 1976 at option prices ranging from $1.35 to $1.68 per share	310,460	—
	810,460	969,827

Under the terms of the Junior Secured Debenture Indenture and Convertible Note Indenture the company has covenanted that, otherwise than for the purpose of making available, whenever the special shares become convertible into common shares, sufficient authorized common shares for the purpose of providing for such conversion, it will not increase its authorized capital prior to December 31, 1975 without the prior approval of the holders of the Junior Secured Debentures and convertible notes.

11. EARNINGS PER SHARE

(a) Because of the reorganization of the company the loss per share figures for the year ended December 31, 1971 were not considered meaningful and consequently have not been presented in these financial statements.

(b) Fully diluted earnings were calculated assuming the exercise of all share options and the conversion of all the convertible debentures and notes and that the proceeds of share options would yield income equal to the interest rate on the Junior secured convertible debentures Series B.

12. RESEARCH AND DEVELOPMENT

During the year ended December 31, 1971 and in prior years, research and development costs were being amortized over four years on a straight-line basis. Because of the reorganization of the company and its consequent reduction in marketing operations, the company was unable to determine the value of deferred research and development costs at December 31, 1971. Accordingly, the balance at December 31, 1971 was written off to deficit.

Research and development expenditures are presently being charged to operations in the year in which they are incurred.

13. CONVERSION OF FOREIGN CURRENCY

Current assets and current liabilities in foreign currencies have been converted to Canadian funds at approximately the year-end rates of exchange. No significant profit or loss resulted from this conversion.

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid to directors and senior officers as defined by the Business Corporations Act for the year was $192,025.

15. LEASE COMMITMENTS

Total rentals paid for the year ended December 31, 1972 and the total of future commitments (excluding tax and like expenses) are:

	$
Year ended December 31, 1972	358,000
January 1, 1973 to December 31, 1977	1,608,194
January 1, 1978 to May 31, 1981	868,874

CONSOLIDATED COMPUTER INC.
CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL FOR THE SIX MONTHS ENDING JUNE 30, 1972

	1972 $	1971 $
	(Unaudited)	
Source of Working Capital		
Profit (loss) for the period	734,742	(3,293,299)
Add: Charges not affecting working capital		
Depreciation	395,162	379,925
Amortization of deferred expenses	0	278,912
Deferred revenue earned	0	(127,760)
	1,129,904	(2,762,222)
Sale of time-sharing equipment	337,812	0
Sale of shares	0	2,000,000
Sale of leased equipment to Leasing Corporation	0	6,018,860
Decrease in fixed assets (excluding equipment on lease sold to Leasing Corporation)	0	76,514
	1,467,716	5,333,152
Use of Working Capital		
Increase (net) in fixed assets	672,892	0
Investment in Leasing Corporation	0	1,203,779
Deferred research and development expenditures	0	468,035
Expenses of issuing securities charged to deficit	0	47,817
	672,892	1,719,631
Increase in Capital	794,824	3,613,521
Working Captial (Deficiency) Beginning of Period	1,900,076	(3,201,226)
Working Capital — End of Period	2,694,900	412,295

The 1972 reorganization of the company affects the comparison of 1972 and 1971 six months statements.

These statements are not audited and are subject to year-end adjustment.

CONSOLIDATED COMPUTER INC.

Report to our Shareholders for the Six Months ending June 30, 1972

President's Message

The financial results for the second quarter have been satisfactory. During the three month period the Company earned $557,621 on revenues of $3,533,782. When combined with the first quarter figures, the first six months of 1972 show earnings of $734,742 on revenues of $5,607,656.

During this six month period the reorganization of the Company was completed. Management was greatly strengthened by re-assignment of responsibilities and the implementation of additional forecasting and control systems throughout the company. The demand for KEY-EDIT systems continues to be strong. The volume of orders received by International Computers Limited from their customers is increasing each month and in North America the demand is good even though we are marketing only on a selective basis at the present time.

We have continued our discussions with International Computers Limited regarding their long term involvement in the KEY-EDIT programme. ICL requested and was granted an extension on their option to market some of CCI's forthcoming new products. In the other market areas of the world such as Japan and Brazil we are actively engaged in assessing the market possibilities available to the Company. We hope to be able to announce definite marketing plans for these markets within the next few months.

Market research experts indicate the demand for key-to-disk equipment, such as the KEY-EDIT Systems, will continue to grow through 1978. A report published recently established Key-to-disk equipment to be the fastest growing segment of the peripheral equipment market. It predicted this market which was $25 million in 1970 would reach $245 million in 1978. Our continuing product development programme enables us to capitalize on this market growth. During the past three months we added new features to the KEY-EDIT equipment that gives us substantial competitive advantages over others in our market.

In summary, the reorganization was completed and we exceeded our projected financial results for the first half year. The Company is now operating in a manner which will allow it to capitalize on future expansion opportunities.

August, 1972.

William G. Hutchison,
President

CONSOLIDATED COMPUTER INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1972

	1972 $	1971 $
	(Unaudited)	
Net Sales, Rentals and Services	5,607,656	2,348,253
Cost of Products and Services	3,198,777	1,134,756
	2,408,879	1,213,497
Expenses		
Marketing, administration and other	1,353,153	3,839,687
Research and development costs	282,375	269,745
Interest on long-term debt	38,609	397,364
	1,674,137	4,506,796
Profit (loss) before income taxes	734,742	(3,293,299)
Provision for income taxes	331,000	–
Profit (Loss) for the period before Extraordinary Item	403,742	(3,293,299)
Extraordinary Item		
Gain on application of tax loss carry forward	331,000	0
Profit (Loss) for the period after Extraordinary Item	734,742	(3,293,299)
Average number of common and special shares outstanding	3,456,850	509,595
Earnings per share		
Basic		
Income before extraordinary item	11.7¢	
Income after extraordinary item	21.3¢	
Fully diluted		
Income before extraordinary item	7.8¢	
Income after extraordinary item	14.1¢	